JANUS CAPITAL Group

MARKET PERSPECTIVES SERIES

# 1Q: The Great Divide

## Oil, currencies, slow growth separate winners and losers.

1Q 2015

Global Sector Views
from the Janus Equity Team

**For four decades, fundamental, bottom-up research has been at the core of the Janus investment process. Our deep team of analysts covers approximately 1,500 stocks around the globe. Each takes a do-it-yourself, unconstrained approach to research. We believe this differentiates us from our peers and drives results for our clients and the investors they serve.**

*Every quarter, our seven global sector teams share their bottom-up perspective on key themes in the equity markets and how those themes impact their sectors and areas of coverage.*

## TABLE OF CONTENTS



The opinions are those of the authors as of January 2015 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

# 1Q: The Great Divide

We leave 2014 on a high note – literally for some equity indices around the world – and figuratively for most of the others as investors shrug off global concerns and see equities for what they are: a compelling alternative to most other asset classes. The rallies have not ended our enthusiasm, although we recognize the landscape is shifting.

Markets are skating through rising risks. Valuations are not extreme in a low interest rate, low inflation environment, but they are hardly cheap. Lower oil prices are generally good for the global economy but it creates winners and losers in companies and countries. And it could create some global turmoil. If interest rates don't rise in the U.S. in 2015, markets at least will begin to price in higher rates in the following years. Europe is still not beyond some structural challenges and pesky political and economic problems in Greece. The list is long, perhaps, but it helps that the risks are smaller than the global macro fears of the past – more disruptive than destructive.

Against this backdrop, we nevertheless remain positive on global equities with directive to distinguish winners from losers. With global growth rates constrained and uncertain, it should be a market where stock pickers must find companies that can generate growth either through superior business models, restructuring or acquisitions. Stock performance may separate from economic performance for companies that can find ways to grow earnings. We expect higher volatility in 2015, but we think stocks with high valuations and where markets are not fully pricing in the risks will be more vulnerable than predictable growth stocks at reasonable valuations. The fall in oil prices makes the investment environment for 2015 even more about stock selection. It is essential to find the companies whose models will benefit in the changed conditions: a stronger U.S. consumer, a stronger U.S. dollar and low oil prices.

In the sector views on the following pages, you will see the areas where we are finding stock opportunities. While technology and health care have segments with overvalued names, these sectors remain interesting because there is a great deal of change and underlying demand. Energy could be under pressure but some stocks may break free because they represent compelling values, even if oil prices remain low through 2015. Industrials might bifurcate where companies overly exposed to energy capital expenditures face a tougher road than those where oil is an important input cost.

Europe's market performance relative to underlying economic growth could surprise. Valuations are not demanding and many companies are finding ways to cut costs, as well as take advantage of a weaker euro and more attractive export markets. There has also been a defensive nature to the European markets in recent months. In 2015, we could see the markets turn more toward cyclical stocks across many sectors.

The weakness in oil is a net positive to the U.S. economy but less so than in the past because of the once-thriving shale business that is now under pressure. Again, in keeping with the theme of winners and losers, it will be important for stock pickers to sort through the impact on individual companies and to take advantage of market mispricing.

Emerging markets are interesting. China, while slowing, could offer inexpensive stocks. India, too, holds promise if government reforms live up to the market's enthusiasm after this year's election. While India and China benefit from lower oil prices, Russia's vulnerability is a global market risk that bears watching. Brazil, the final of the major EMs, remains the most uncertain. It is sorting through a post-election corruption probe that is touching its largest oil company. Russia and Brazil also face a risk of stagflation. Russia's geopolitical situation and declining oil revenues create significant economic weakness, pressure its foreign currency reserves and weaken the ruble, a combination that could spike inflation. Brazil is dealing with persistently high inflation and weak growth. Longer term, we see a normalizing economy, but the interim period is likely to be a struggle.

With much of the world in a slow growth mode and central banks competing with stimulus programs (and weaker currencies), it is easier to pick stocks than to make regional or sector calls. We are assuming, however, that macro risks remain relatively subdued. Should we see another macro shock, perhaps from a flare-up of the many simmering political conflicts around the world, regional factors will matter more. Indeed, that the many smaller risks give way to a large, geopolitical catastrophe remains our greatest fear. Crisis is not our base case, naturally, and we therefore remain positive about stock pickers rather than sector or country allocators in 2015.

**Carmel Wellso**
Director of Research

**Adam Schor, CFA**
Director of Global Equity Strategies

# Janus Global Equity Research Sector Summary

This sector-by-sector review provides a snapshot of how Janus analysts are applying their research insight — including favored industries, themes, potential sector risks and challenges — to their stock selections. While the views and recommendations of Janus analysts drive our research strategies, they may not be reflected in all Janus equity strategies due to varying portfolio objectives and stock-selection criteria.

### COMMUNICATIONS

- The shift in consumer habits has placed pressure on companies to modify distribution platforms and identify effective methods to measure and monetize activity in a multi-platform environment.
- Increased demand for bandwidth benefits tower owners, and also cable companies.
- We are investing in vertically-integrated content companies that are able to control distribution across traditional and digital platforms and infrastructure companies meeting increasing bandwidth demands.

p4

### CONSUMER

- Retail and apparel companies are making heavy investments to create a seamless customer experience across in-store, mobile and online channels.
- We anticipate increased M&A activity among consumer staples companies.
- We are investing in more consumer staples companies that derive a greater portion of revenues from U.S. markets.

p6

### ENERGY + UTILITIES

- Despite near-term pricing weakness, we believe higher oil prices are sustainable beyond 2015.
- The current low price environment calls for a selective approach to stock picking in the energy sector.
- For energy and production companies, we are carefully reviewing balance sheet strength and the breakeven drilling price required at each drilling site.

p8

## INDUSTRIALS + MATERIALS

- Industrial companies with a U.S.-centric focus have considerably better growth prospects than those with an international focus.
- A crackdown on corruption in China is causing gridlock for a number of large-scale industrial projects.
- We are investing in U.S. industrial distributors, which benefit from a U.S. recovery. We also see opportunity with companies that benefit from cheaper oil prices.

p14

## FINANCIALS

- Most banks are likely to experience muted growth in the first half of 2015.
- The payments industry is poised for long-term growth as consumers make fewer cash transactions and e-commerce grows.
- Increasing consumer wealth and government incentives are leading more consumers in Asia to seek insurance.

p10

## TECHNOLOGY

- Chief information officers are dedicating a large portion of IT budgets to cloud-based solutions, driven by both security and cost considerations.
- Some mature technology companies are starting to give greater attention to shareholders by returning capital and exercising more discipline in capital allocation decisions.
- We are investing in companies that have a robust offering of cloud-based solutions, and others that provide connectivity infrastructure.

p16

## HEALTH CARE

- We continue to be excited by the product pipelines for many biotech and pharmaceutical companies.
- The reduction of the uninsured population has positive ramifications for hospitals and the managed care industry.
- Many of our biotech investments are entering significant new launch cycles that should extend well into the next decade.

p12

COMMUNICATIONS

# Embracing digital

## The transition from TV to digital should pick up considerable steam in 2015. The shift is past the point of no return in developed markets given the catalyst that mobile applications have provided. Conversely, digital applications are migrating in greater quantities to television, blurring the lines between platforms.

While this convergence is a long-term plus as it will increase total viewership, the transition period will be disruptive. Rapid changes are being led by consumers willing to adapt to new behavior. The industry must now catch up to these shifts by fine-tuning new distribution models, means of measurement across platforms and methods to optimally monetize their products. For their part, as digital native companies such as Facebook and Google capture a greater share of advertising budgets, they can more effectively roll out products, including but not limited to third-party measurement and audience targeting, that brand advertisers require. These innovative steps will reinforce the strengthening position of digital firms in the marketplace for advertising spending.

> Wireless tower and cable operators stand to benefit from heightened bandwidth demands.

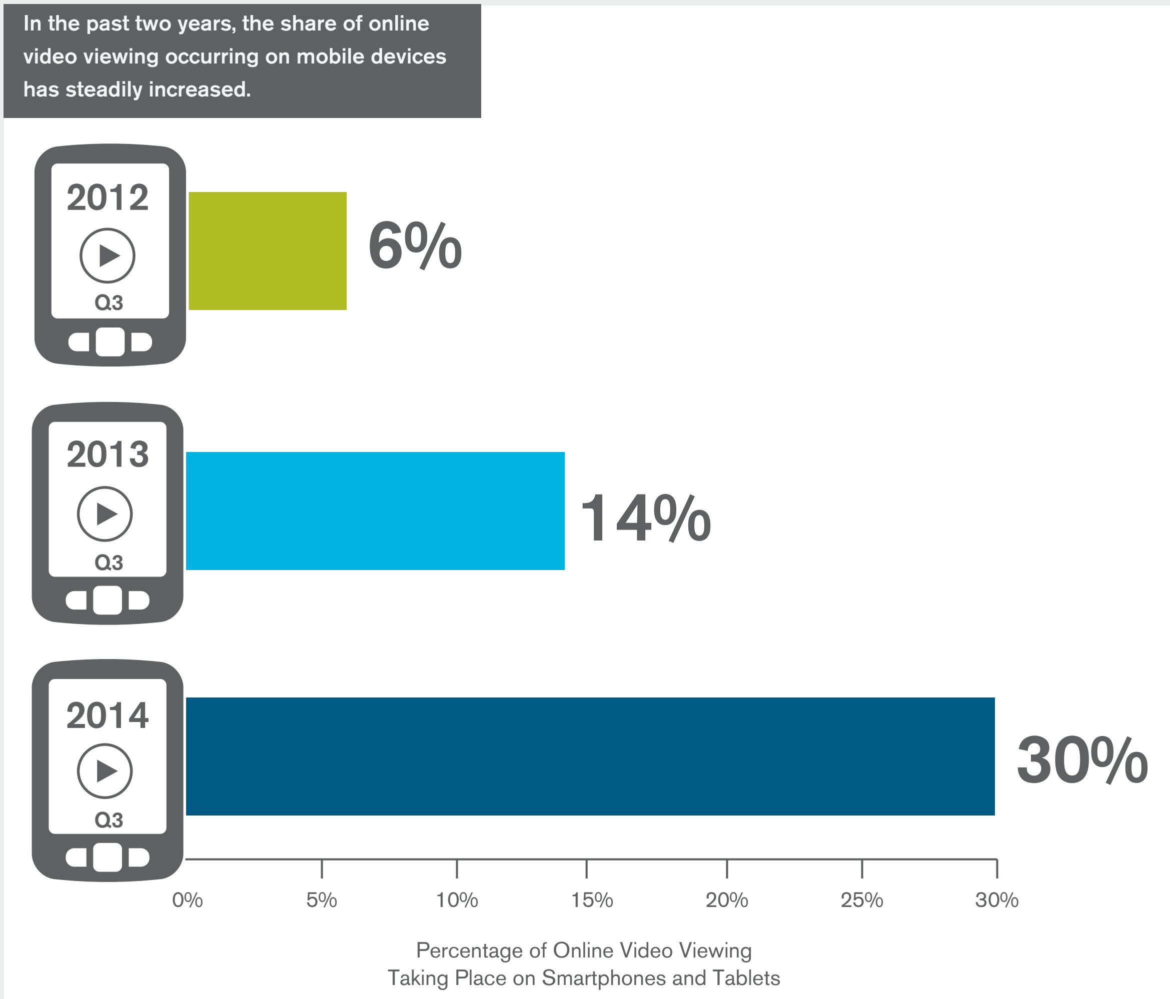
The complementary trends of shifting to mobile and massive increases in streaming video reinforce the need for greater bandwidth. More wireless towers are required to meet the demands placed on infrastructure by mobile customers. Augmenting the fiber backbone will be necessary as many towers are reliant upon that technology to deliver services to end users.  As household applications become increasingly digital, heavy demand for bandwidth inside homes will also require greater capacity from fiber.

## Investment Implications

We are investing in companies whose management teams have identified the clearest path to navigate the shifting patterns in content delivery. We prefer vertically-integrated content providers with branded distribution platforms. These companies have the highest likelihood of controlling their own destiny by circumventing many of the unsolved issues of cross-platform delivery. We favor companies seeking to take advantage of the continued shift to mobile and those seeking to harness the growth of short-form video targeting specific audiences. We also hold a number of wireless tower and cable operators that stand to benefit from heightened bandwidth demands, with the latter being well positioned regardless of the final distribution channel.

## MOBILITY: THE FUTURE OF VIDEO VIEWING

**Share of Total Online Video Views on Smartphones and Tablets**




*Source: Ooyala Global Video Index. As of 9/30/14.*

### THEMES-IN-ACTION ▶ COMMUNICATIONS

- MONETIZATION OF HIT CONTENT
- THE GLOBAL MOBILE INTERNET
- CABLE DISTRIBUTION NETWORKS

In 2009 the average U.S. wireless subscriber used **25MB of data** per month. By 2013 it had risen to **1,214MB.**

CONSUMER

# Shifting shopping habits

Cheaper oil prices are a boost to consumer budgets, and are particularly beneficial for consumers where energy represents a large portion of their overall spending. Low oil prices could also lead to near-term margin expansion for many consumer packaged goods companies in which oil-based derivatives are a large input cost. Despite those tailwinds, the consumer spending environment remains challenged outside of the U.S., particularly in many emerging markets where inflation and slower GDP growth are moderating demand for many consumer staples products.

With sales growth challenged, we expect to see more consumer staples companies take advantage of cheap debt and generally healthy balance sheets to make acquisitions in 2015.

Most retail companies and apparel companies are in the process of trying to build a multichannel shopping experience. The challenge is affecting both online brands, which are opening physical stores, and traditional mall-based retailers, which are investing to improve the customer experience online. While a better multichannel experience will benefit retailers in the long run by providing them more touch points with the consumer, the heavy investments required to create better technology platforms and inventory management systems are a near-term headwind.

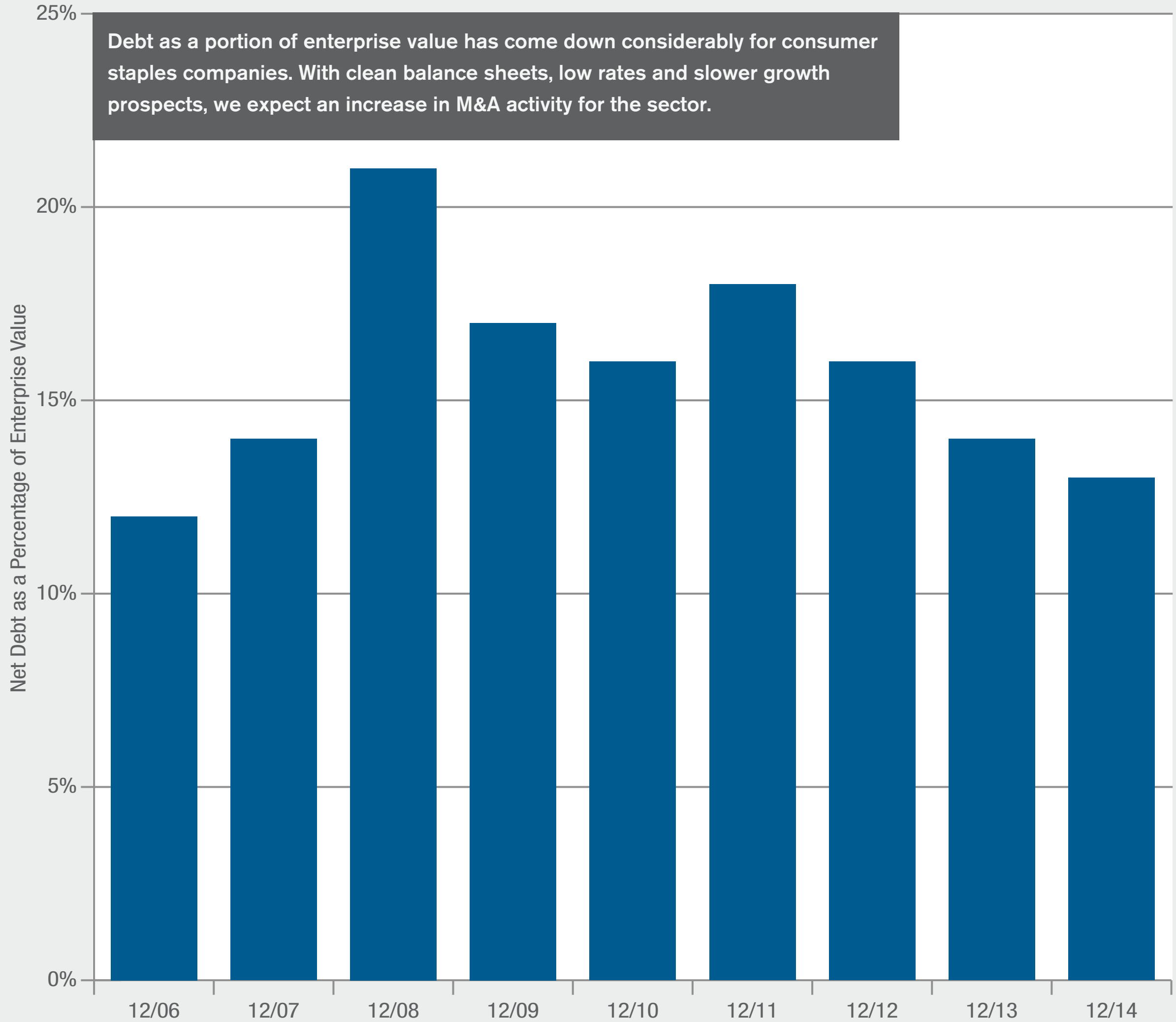
A better multi-channel shopping experience will benefit retailers in the long run.

## Investment Implications

We are selectively investing in companies we believe are building a superior multichannel distribution platform for their customers. Many of our holdings are companies whose brands are recognized globally, but are still in the early stages of building their physical store presence internationally. These companies are using data from their mobile and online sales to carefully plan their international expansions with a clearer picture of where sales are coming from. We have also invested in home-related companies, which are benefiting from an uptick in home sales and increasing home values as consumers invest in home improvement projects that were delayed during the recession. Within the consumer staples sector, we have invested in several companies that derive a greater portion of revenues from the U.S., where consumer spending has been stronger.

## MORE DEAL ACTIVITY AHEAD FOR STAPLES COMPANIES

**Net Debt as a Percentage of Enterprise Value for Large-Cap Consumer Staples Companies**




The chart shows net debt as a percentage of enterprise value for a collection of large-cap consumer staples companies that have historically deployed the most capital toward mergers and acquisitions, and historically been the most active on the M&A front.

*Source: Janus. As of 12/31/2014.*

### THEMES-IN-ACTION ▶ CONSUMER

- STRONG GLOBAL BRANDS
- TECHNOLOGICAL EDGE

Transactions on **Starbucks'** mobile app accounted for more than 15% of U.S. sales in the third quarter.

ENERGY + UTILITIES

# Falling prices

## In the near term, we believe slumping oil prices could remain low. A moderating global economy has softened demand growth for oil and it will take several months for exploration and production companies to cut back on resilient supply growth in reaction to the current pricing environment. Seasonal maintenence to U.S. refineries in early spring will further dislocate the supply-demand balance.

While prices could remain lower in the coming months, we believe that higher oil prices established over the past decade are sustainable after 2015. A growing global economy, particularly in emerging markets, will continue to demand more oil. Meanwhile, new production at higher price levels will be required to offset the natural decline rate of existing wells.

Stocks for oil-related energy companies sold off broadly in the fourth quarter as oil prices fell, but in the coming months we expect the market to differentiate between stocks based on each company's sensitivity to oil prices. At a high level, we expect less demand for energy service companies. Exploration companies with high levels of debt that are drilling in higher cost fields, such as many U.S. shale sites, will also face large headwinds in the coming months.

## Investment Implications

The current low price environment calls for a selective approach to stock picking in the energy sector. We are carefully examining energy and production companies to determine the breakeven oil price a company requires to remain profitable at each of their respective drilling sites. We are also analyzing the balance sheet strength of each company to determine their ability to withstand low prices in the near term. Volatility caused by falling oil prices could provide opportunity in the coming months to buy companies where the reserve potential or the low cost structures of their asset bases are underappreciated. We are also investing in several pipeline companies, where the contracts these companies use are not typically tied to the price of the underlying commodity, which makes their revenues less susceptible to a drop in oil prices.

The current environment calls for a selective approach to stock picking in the energy sector.

## OIL TUMBLES

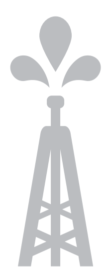
**One Month Forward Contract Prices for West Texas Intermediate Crude Oil**

**Oil prices have fallen dramatically in the latter half of 2014, negatively impacting energy related stocks. We believe higher prices established over the past decade are sustainable after 2015, however.**


*Source: Janus. As of 12/14/14.*

### THEMES-IN-ACTION ▶ ENERGY + UTILITIES

- SMART CAPITAL ALLOCATORS
- PIPELINE COMPANIES



**Enterprise Products Partners** has been seeking to lower its business risk by requiring more fixed fee contracts with production companies. Such contracts are less tied to the price of the underlying commodity.

FINANCIALS

# Insurance boom

**The growth outlook for most banks globally looks muted in the first half of 2015. European banks have cleared several large hurdles that had negatively impacted market sentiment. For example, most banks passed Europe's Asset Quality review test, and European banks are in the latter innings of settling a host of litigation issues. A leverage requirement for banks set by the UK was lower than initially expected.**

Even though these headwinds are getting cleared, growth prospects for Europe's banks remain slow, and it will take several months before potential stimulus from the European Central Bank works its way through the economy in a manner that will materially improve banks' growth prospects. Growth for U.S. banks, meanwhile, remains challenged by both regulatory headwinds and low interest rates.

Other areas of the financial sector have more exciting long-term growth prospects. In many Asian countries, increased wealth is encouraging more consumers to seek insurance. Tax incentives from many Asian governments are also encouraging wider uptake of retirement savings vehicles issued by insurance companies. Payments companies are also positioned for long-duration growth as more purchases shift from cash to plastic and electronic purchases. A recent decision by Apple to work with existing payments companies to operate its new mobile payment system, Apple Pay, is another positive development for existing payments companies and could open the door for their networks to provide the infrastructure of other emerging mobile payment systems.

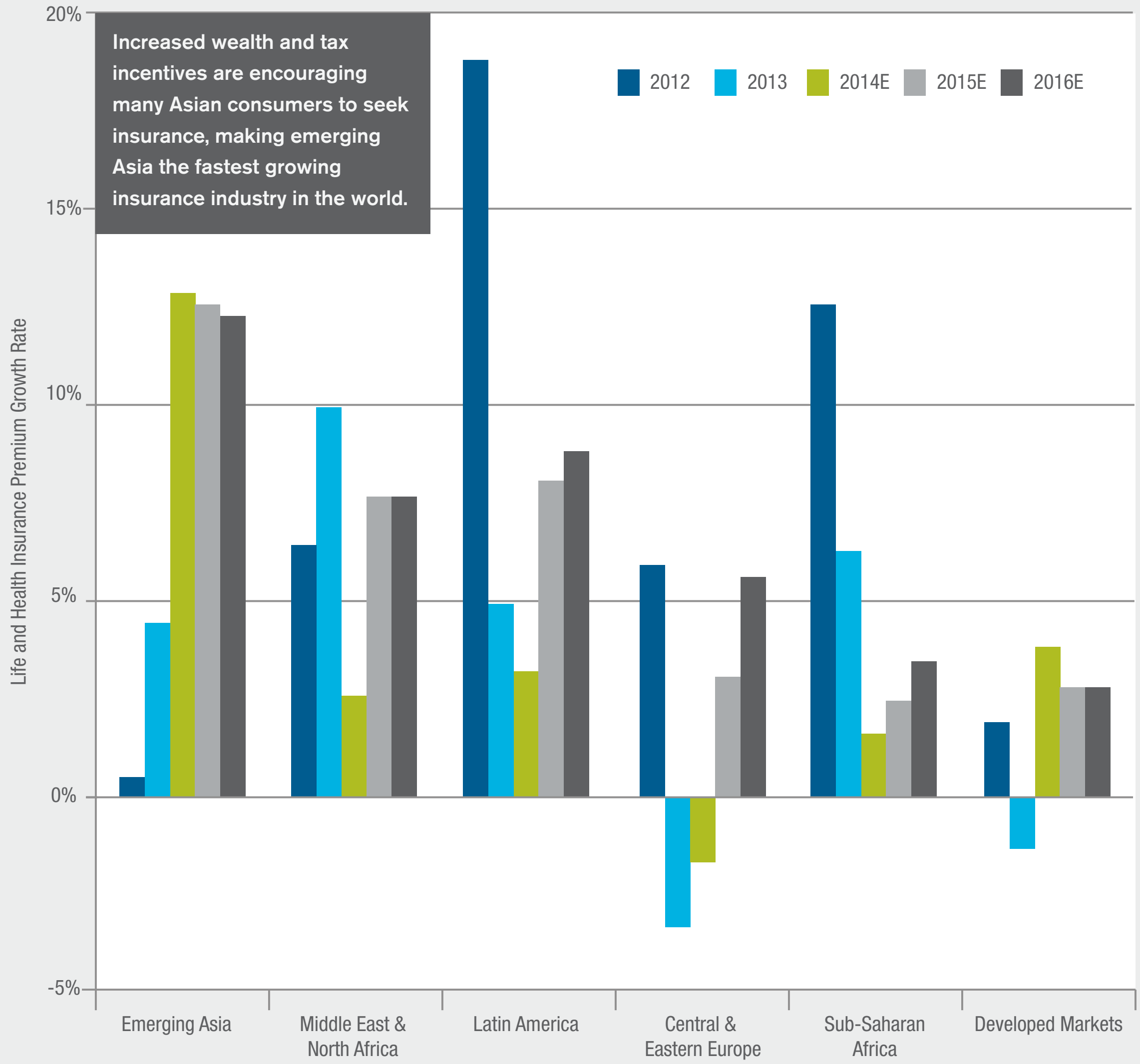
> In Asia, increased wealth is encouraging more consumers to seek insurance.

## Investment Implications

We continue to hold several payments companies. We are also investing in European banks. While growth for those banks is still several months out, low valuations suggest little downside risk in current stock prices. We have also invested in global insurance companies with a large presence in Asia. The brand recognition of these larger companies should help them take market share from small, local competitors at a time when total demand for insurance products is also growing. Finally, we are also investing in select companies that are positioned to take advantage of a growing need for advice in the wealth management industry.

## INSURANCE EXPANSION

**Life and Health Insurance Premium Growth by Emerging Region**




*Source: Swiss Re Global Insurance Review 2014 and Outlook 2015/16.*

### THEMES-IN-ACTION ▶ FINANCIALS

- PAN-ASIAN INSURANCE
- ELECTRONIC PAYMENTS GROWTH

In the third quarter of 2014, **MasterCard experienced 10% growth** in processed transactions compared to the same quarter last year.

HEALTH CARE

# Strong growth drivers

**Trends that have driven high returns for the health care sector remain strong. Advances in genetic analysis are leading to innovative treatments for a number of diseases, and we continue to be excited by product pipelines for many companies. The seven largest biotech companies, for example, each has innovative therapies addressing high, unmet medical needs that are in the early stages of major new launches. The innovative nature of these and other new therapies are one of the reasons for record M&A levels in the sector.**

The tax advantages of inversion deals also drove many acquisitions in 2014. While the U.S. Treasury Department has made tax inversions more difficult, we expect M&A activity to remain high, driven by the attractive growth potential of innovative therapies and the advantages of consolidation in the specialty pharmaceutical industry. Recent mergers between Roche and InterMune, and also Merck and Idenix, provide examples where innovation drove deals.

Another important trend for the sector has been the reduction of the U.S. uninsured population. The Affordable Care Act has driven roughly 10 million consumers to gain health care coverage and we expect incrementally more consumers to gain insurance next year. A growing portion of insured patients translates into less free care at hospitals as more patients have insurance to cover their bills. A growing insured population also means new customers for managed care companies.

> More insured patients translates into less debt for hospitals.

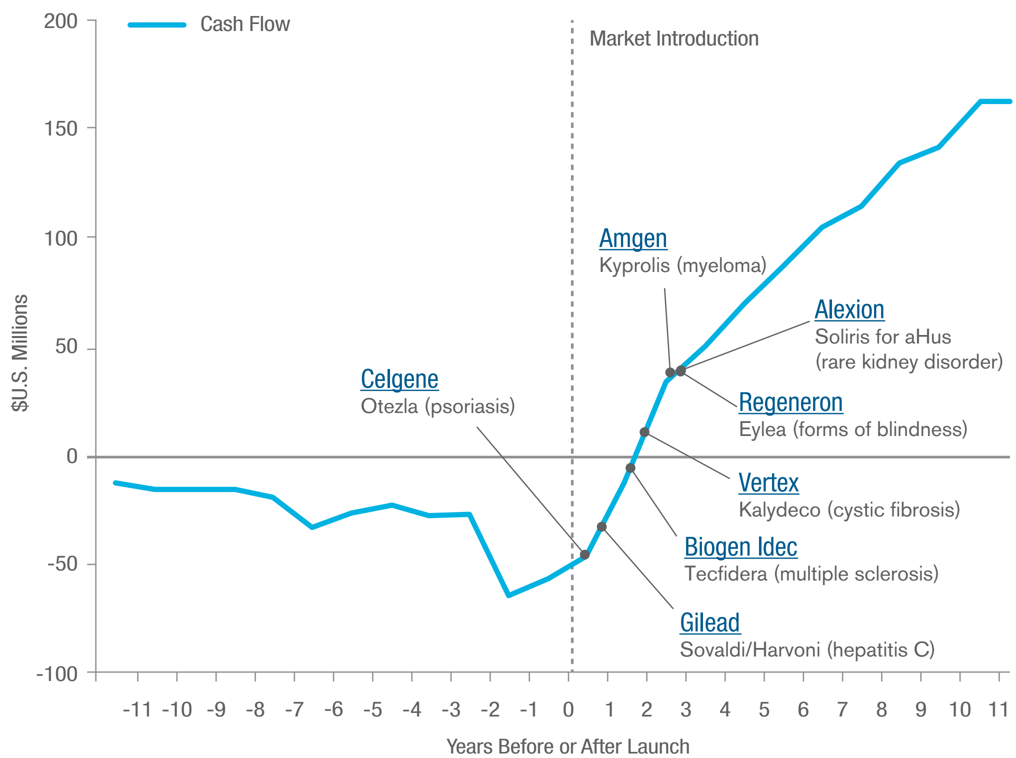
## Investment Implications

While growth drivers for the health sector remain intact, the investment environment has become more challenging. Valuations are high for most early-stage biotech companies, and the IPO pipeline is robust, with many unproven companies seeking to capitalize on increased investor interest. Against that backdrop, we are closely evaluating the science behind each therapy under development and are conducting our own analysis to determine the likelihood of a new drug passing clinical trials. We are also investing in many biotech companies that have already brought new therapies to market but are still years from facing competition from other competing drugs or generics. We are also selectively investing with managed care companies we believe will be more competitive on health care exchanges. Finally, we see opportunities with hospital owners and operators that are poised to benefit from the expansion of insured populations.

## PROMISING PIPELINES

**Typical Cash Flows Over a Drug's Life Cycle**

**Several large-cap biotech companies are in the early stages of new product launches for innovative therapies. New treatments typically experience greater profits beyond the third year, after the initial costs of research and development, marketing and sales.**




*Source: Returns on Research and Development for 1990s new product introductions.*

### THEMES-IN-ACTION ▶ HEALTH CARE

- COST-SAVING BUSINESS MODELS
- INNOVATIVE NEW DRUGS

In October, **Gilead** launched Harvoni, the first single-tablet regimen to treat a broad subset of hepatitis C patients.

INDUSTRIALS + MATERIALS

# Divergent paths

Falling commodity prices and divergent regional economic growth are shaking out a host of winners and losers in the industrial sector. Falling oil prices will benefit the airline and other transportation industries, but will be a strong headwind for many U.S. industrial companies serving the energy sector.

Beyond the energy complex, other industrial companies with a U.S.-centric customer base face much better growth prospects in the coming months than companies with a heavy international focus. The U.S. consumer remains strong, and falling energy prices should translate into increased consumer spending. We also expect capital expenditures among U.S. businesses to pick up soon.

The outlook is less sanguine for companies with growth prospects tied closely to China. Interest rate cuts in China are a sign the economy may be slowing worse than the market anticipated. China's government is working hard to crack down on corruption, and while this has positive long-term implications it risks causing gridlock that will delay the approval of major industrial projects. Industrial companies selling into China are already reporting delays for many projects. Europe's growth also remains slow, but we believe further stimulus will help the region avoid deflation. Slow growth has also forced many European companies to undergo tough cost cuts, which could lead to future margin expansion.

## Investment Implications

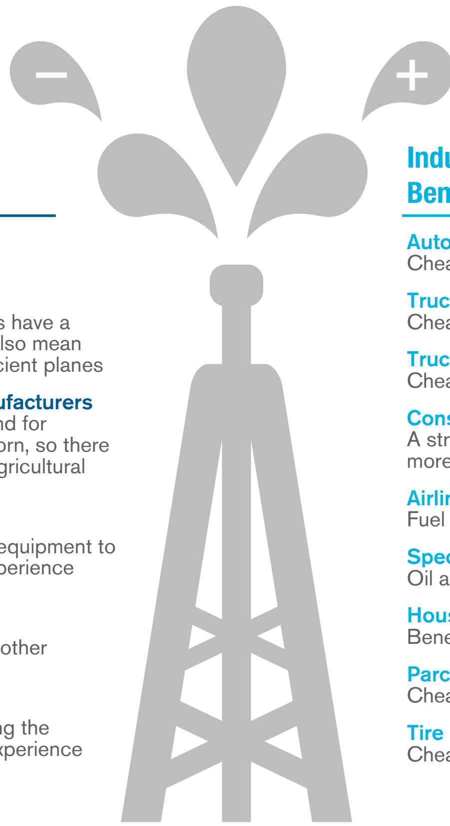
We have invested in U.S. industrial distributors that are poised for revenue growth as the U.S. economy gains steam. We also hold a number of airline and transportation companies, which have benefited from cheaper input costs as oil prices fall. We have avoided many commoditized materials companies, as slower economic growth in China will likely hold down commodity prices. In Europe, we are finding the best opportunities with companies that have undergone restructuring efforts, or other tough cost cuts. Such companies could see considerable earnings growth with even the slightest economic recovery in Europe.

We expect capital expenditures among U.S. businesses to pick up soon.

# THE BEST OF TIMES, THE WORST OF TIMES

**Display of Different Industries in the Industrials Sector that Benefit from, or are Hurt by, Falling Oil Prices**

**Many areas of the industrials sector will benefit from the drop in crude oil prices, but several industries are poised to be hurt by the steep drop.**



## Industries that are Hurt by Low Oil Prices

**Rails**
Shipping less crude by rail

**Aerospace**
While airlines and other buyers have a bigger budget, low oil prices also mean less demand for more fuel-efficient planes

**Agricultural Equipment Manufacturers**
Cheaper oil means less demand for ethanol, which is made from corn, so there is a knock-on effect of lower agricultural commodity prices

**Diversified Industrials**
Those companies that supply equipment to the oil and gas industry will experience softer demand

**Commodity Producers**
Suffer from knock-on effect of other falling commodity prices

**Machinery Companies**
Machinery companies supplying the oil and gas industry will also experience softer demand

## Industries that Benefit from Low Oil Prices

**Auto**
Cheaper fuel

**Trucking**
Cheaper fuel

**Trucking Equipment Suppliers**
Cheaper fuel, larger client budgets

**Construction Equipment**
A stronger consumer will translate into more construction

**Airlines**
Fuel is one of the largest input costs

**Specialty Chemical Producers**
Oil and natural gas are large raw inputs

**Housing**
Benefits from a stronger consumer

**Parcel Carriers**
Cheaper fuel, stronger consumer

**Tire Manufacturers**
Cheaper input costs

*Source: Janus. As of 12/16/2014.*

## THEMES-IN-ACTION ▶ INDUSTRIALS + MATERIALS

- BALANCE SHEET STRENGTH
- INTERNAL GROWTH DRIVERS

A strong balance sheet has given **Roper Industries** the ability to increase its dividend for 22 straight years.

TECHNOLOGY

# Rising into the cloud

**Recent trends within the technology sector have begun to accelerate. Corporations are shifting a larger share of finite IT budgets to cost-effective, cloud-based solutions, which address multiple functional concerns. A primary driver in the transition to cloud-based solutions is security.**

Companies now recognize that the multiple layers of encryption inherent in the cloud provide greater protection than on-premises data storage. As evidenced by data breaches at several large corporations, once the perimeter of an on-premises network has been compromised, damage can be extreme. These risks extend to senior management and boards of directors. Managers are also attracted to cloud-solutions due to their favorable total costs of ownership vis-à-vis alternatives.

Another important theme for the sector is the adoption of more shareholder-friendly policies by many maturing tech companies. After recognizing the limited benefits of excess cash, management is returning capital in the form of buybacks and special dividends and in some cases, partaking in leveraged recapitalizations to boost earnings per share. Industry consolidation, a different tactic to add shareholder value, is also gaining momentum, particularly in the semiconductor industry. Muted growth prospects, a shift away from consumer electronics toward faster-growing industrial end markets, the possibility of culling operating expenses, and cheap financing are all enticing companies to consider acquisition opportunities.

> Corporations are shifting a larger share of IT budgets to cloud-based solutions.

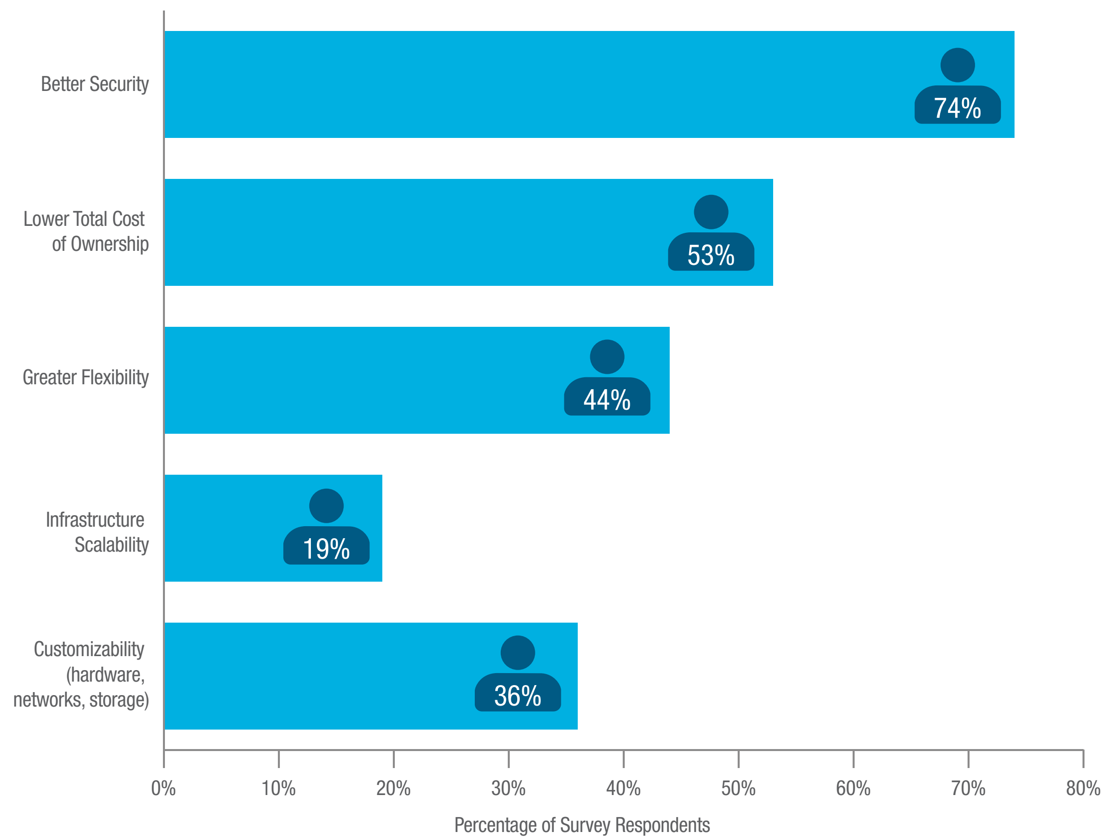
## Investment Implications

Lofty equity markets continue to present challenges in identifying fairly valued IT companies. We favor companies that offer a platform of broad cloud-based solutions rather than those offering a single product. We are focusing on identifying management teams that recognize their share price is undervalued and are willing to be aggressive in rectifying the situation. We continue to monitor companies with strong balance sheets and ample cash to fund acquisitions, as well as ones that could be targets. Companies that stand to benefit from the growing interconnectivity between electronic devices (known as the Internet of Things), especially those providing solutions to the larger enterprises and governments that stand to be early adopters, remain in our holdings.

## SEEKING GREATER SECURITY

**Reasons for Preference of Private Cloud Solutions (Percentage of Survey Respondents)***

**Migration to the cloud is driven largely by more robust security features compared to on-premises solutions in addition to favorable cost profile.**




*Survey respondents included enterprises that have adopted or are seeking cloud solutions, cloud service providers and also consultants and third-party advisors who work with businesses.

*Source: Everest Group, 2014.*

### THEMES-IN-ACTION ▶ TECHNOLOGY

- CLOUD COMPUTING EXPANSION
- MOBILE DEVICE GAINS
- INTERNET OF THINGS

In a survey conducted for **Oracle**, 94% of respondents considered shifting at least some new internal applications to a cloud-based solution; for shifting existing applications, the number was 89%.

# Equity Research Survey Takeaways

An important component of Janus' intensive bottom-up research approach is the development of independent and differentiated views supported by in-depth primary research. We conduct over 200 ongoing proprietary surveys — many of which have been conducted for multiple years — providing a valuable time series of grass-roots-level information. Following is a sampling of our latest survey findings.

| BUSINESS INSIGHTS | |
|---|---|
| ⊕ | Logistics managers are experiencing pricing increases from the transportation companies they use. **A better pricing environment is favorable for trucking companies and the transportation sector more broadly.** |
| ⊕ ⊖ | Inventories of used agricultural equipment have peaked, and prices of used equipment have bottomed. The trend suggests **sales of new agricultural equipment will bottom in the next nine to 12 months.** |
| ⊕ | A number of public data points and several industry surveys we maintain suggest U.S. nonresidential construction spending is set to **increase in 2015.** |
| ⊖ | Government data shows that the **growth in mortgage approvals in the UK has slowed since the government implemented more stringent regulations governing the approval process.** A slowdown in mortgage approvals is beneficial for companies renting residential properties, but is a headwind for homebuilders and mortgage brokerage companies. |
| ⊕ | Our survey of corporate travel managers shows **fewer companies are placing restrictions on travel.** The majority of those surveyed say they expect travel budgets to increase in 2015. |

| CONSUMER INSIGHTS | |
|---|---|
| ⊕ ⊖ | A new consumer survey assessing the competitiveness of vacation rental by owner (VRBO) properties compared to hotels indicated that **price and proximity were the primary reasons driving selections of VRBOs.** For those consumers who preferred hotels, feeling uncomfortable in someone else's home was a primary driver of their decisions. |
| ⊕ | Our survey of paint contractors indicates paint and coating growth is accelerating, which provides further evidence that **home improvement projects and remodeling spending continues to increase.** |
| ⊕ | **Consumer demand for organic food products continues to increase.** The majority of organic food suppliers we surveyed expect sales to increase by at least 10% in 2015. Overall industry growth and awareness, improved distribution channels and more shelf space were cited as primary drivers of growth. |
| ⊕ | Data shows **auto sales in Europe continue to increase on a seasonally-adjusted basis.** While sales have picked up from trough levels in late 2012, they still remain well below average long-term trend levels, suggesting sales have room to pick up meaningfully if the regional economy improves. |
| ⊖ | **Rental properties continue to increase for consumers.** Our tracking of rental property prices shows rentals for one- to three-bedroom properties were up another 1% in the quarter. |

Janus proprietary research surveys ("surveys") are not conducted for each security Janus analyzes. Surveys are not scientific and are a single element of the Janus research process that may or may not be implemented. The insight(s) gained as a result of research efforts presented were a single factor in analyzing each particular company and were not the only factor used in Janus' analysis.

# Janus Global Equity Sector Team Leaders

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**HEALTH CARE**
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**HEALTH CARE**
Ethan Lovell

**INDUSTRIALS + MATERIALS**
David Chung

**INDUSTRIALS + MATERIALS**
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**TECHNOLOGY**
Brinton Johns

**TECHNOLOGY**
Garth Yettick, CFA

## Guiding Principles of Janus Research

- Invest with our clients' interests first.
- Develop a deep understanding of the companies we research.
- Employ a strong valuation discipline focused on quality growth.
- Develop independent and differentiated views on our companies, supported by in-depth primary research.
- Spend as much time thinking about what could go wrong as about what could go right.
- Take a long-term view.
- Seek to anticipate change, don't just analyze it.
- Attract the best and brightest analysts in the business, and foster an environment in which they can succeed on behalf of our investors.

JANUS CAPITAL Group

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